

July 15, 2002

To: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: David E. Janssen
Chief Administrative Officer

WORKERS' COMPENSATION

On January 29, 2002, during a discussion of the Probation Department's industrial injury costs, the Board instructed my office to assess the need for the County to have a centralized Risk Management System, and to assess the need for departmental workers' compensation budgets. The information gathered and the conclusions reached are reported below. Subsequent review and approval by the Board of the Consolidated Risk Management Program (CRMP), which is currently in the implementation phase, within this office, was considered during this assessment. In addition, the report contains information on the workers' compensation practices by the Department of Human Resources (DHR).

Workers' Compensation Practices

A centralized countywide workers' compensation program had been administered by DHR and is now consolidated within the CAO. Some of the tasks, however, have been outsourced and handled by private contractors referred to as Third Party Administrators (TPAs). The unit performs oversight of all outsourced tasks, by assigning up to two experienced fulltime workers' compensation specialists to each of the TPA locations. The County specialists involved in this process are well versed in California's workers' compensation law, and the benefits provided by the County. They have first-hand claims adjustment experience, and have supervised claims adjusters. Oversight provided includes approval of all payments over certain limits; authorization of awards; handling of special problems; and providing expert advice on County processes such as the Payroll System.

In addition to the oversight provided by specialists who are permanently assigned to TPA locations, other specialists travel among TPA locations, conducting a variety of tasks. Among the tasks performed are: auditing for penalties and overpayments; providing special expertise in vocational rehabilitation; identifying fraud and developing fraud cases; and providing training to TPA staff.

Specialty services are also provided. For example, the Environmental Health and Safety Services Section is staffed by five industrial hygienists who provide consultation, advice and guidance to departments in all areas of health and safety, including Cal/OSHA compliance and injury/illness prevention. Quarterly seminars are conducted on this subject matter.

Another specialty area is Early Return-to-Work. In-house training and guidance is provided to departments that wish to conduct Early Return-to-Work Programs. Vocational rehabilitation specialists conduct departmental training sessions upon request, and seminars in program procedures are conducted on a quarterly basis.

Each County department is responsible for loss prevention and control within their operations. Departments typically designate a safety officer and an Early Return-to-Work Program coordinator to address these issues. Seminars for safety officers and coordinators were conducted by DHR, and individualized assistance in program development was provided.

Assessment of Need For Decentralized Workers' Compensation Units

In order to perform this assessment, data for two fiscal years were analyzed. Attachment I indicates the total number of open claims countywide for fiscal years 2000-01 and for 2001-02 through February 2002. Data for the five departments with the highest percentages have been highlighted. The claims for each of the remaining departments (shown as "other County departments") represents less than six percent of the countywide total. The number of claims in the highlighted departments is relatively small, with the exception of the Sheriff's Department. However, while the number of claims in the Sheriff's Department may be sufficiently large to achieve economies of scale to stand alone, there are other issues that must be considered. Among these are:

- Employee concerns about department objectivity.
- Confidentiality of medical and psychological reports.

- Lack of technical expertise at the department level. (Each department would need to develop or otherwise obtain in-house experts to implement and manage a program that is complex and highly regulated.)
- Increased costs for additional personnel at the department level.
- Duplication of effort.
- Fragmentation of the process, potentially leading to less control and inconsistent handling of claims across County departments.
- The County is recognized under law as the employer, not the individual departments.

Billing Procedures

All benefit payments to County employees were processed by DHR. Each department is subsequently billed for benefits paid to their employees plus associated administrative costs. The methodology utilized to bill departments involves the use of a three-year rolling average, where a ratio is developed utilizing a department's last three years' actual costs. This ratio is applied to total estimated costs for the new fiscal year. This methodology, which has been approved by the State, smoothes major cost variances between fiscal years.

The Auditor-Controller's Office recently conducted a review of the rolling average methodology as part of its review of the appropriateness of the workers' compensation costs billed to the Sheriff's Department. During this review, the methodology was determined to be sound. However, our office is exploring alternative methodologies for consideration.

Other Findings

The unanticipated increases in workers' compensation costs are a concern for many departments. To understand the nature of increases from one year to the next, a comparison of actual cost, actual amount billed and budgeted amount for fiscal year 1999-00, 2000-01, and 2001-02 estimates was performed. Details are contained in Attachment II. This comparison revealed that the major variance in costs is between the amount that departments budgeted and the actual amount billed. For example, for the past two fiscal years, departments were advised to budget for the coming year based upon the observed trends from the prior year. However, it was not anticipated that the costs would exceed the budgeted amounts until December 2000 and December

Each Supervisor
July 15, 2002
Page 4

2001, when the first few months of actual cost data became available. Although departments were notified immediately in each of these years to expect the increase, they may not have been able to effectively manage the increase as the fiscal year was well underway. It appears that this problem exists because of the difficulty in estimating the impact of legislation changes from one year to the next, and greater than anticipated increases in medical costs.

Conclusion

Based upon the above analyses, decentralization of the workers' compensation process to individual departments would not have prevented the unanticipated cost increases, as they are primarily attributable to circumstances beyond the County's control, such as changes in legislation at the State level and the related expansion of benefits. In addition, decentralization would result in additional costs and duplication of effort. We will refer this issue to the recently established Centralized Risk Management Program for additional analysis in an effort to identify ways to attain more immediate cost reductions.

DEJ:DL
JW:AC:vyg

Attachments

WORKERS' COMPENSATION COST COMPARISON

FYE's 1999-00, 2000-01, 2001-02

Detail Schedule

Department	FISCAL YEAR 1999-00			FISCAL YEAR 2000-01			FISCAL YEAR 2001-02	
	Adopted Budget	Actual Incurred	Actual Billed	Adopted Budget	Actual Incurred	Actual Billed	Adopted Budget	Estimated Actual *
Health Svs-Coastal Cluster-Harbor/UCLA	3,531,000	3,938,042	32,642,554	4,211,000	3,701,407	3,773,167	5,067,000	4,683,098
Health Svs-Ant Vly Cluster-High Desert Hosp	1,253,000	1,841,516	0	1,586,000	2,288,190	2,230,824	2,182,000	2,118,084
Health Svs-Northeast Cluster-LAC/USC	12,965,000	14,673,292	0	14,010,000	15,318,043	15,306,581	17,541,000	20,344,502
Health Svs-Southwest Cluster-M.K.L. Jr.	5,761,000	5,954,591	0	6,637,000	6,813,611	6,831,909	8,057,000	9,613,178
Health Svs-San Fern Vly Cluster-Olive View	2,415,000	2,594,592	0	2,899,000	2,506,311	2,548,359	3,529,000	3,840,994
Health Svs-SouthWest Network Hosp-RLA	4,359,000	3,649,841	0	4,339,000	3,138,038	3,266,132	4,795,000	3,711,370
Subtotal ENTERPRISE FUNDS	30,284,000	32,651,874	32,642,554	33,682,000	33,765,600	33,956,972	41,171,000	44,311,226
County Clerk/Exec Office/Sup Ct	2,820,000	6,563,238	3,692,666	3,360,000	7,176,813	7,220,531	0	0
General Fund - Courts	0	0	0	182,000	0	0	0	0
Muni Courts-Alhambra	2,000	119,905	3,145,357	6,000	0	0	0	0
Muni Courts-Antelope	39,000	411,581	0	54,000	0	0	0	0
Muni Courts-Beverly Hills	65,000	0	0	103,000	0	0	0	0
Muni Courts-Burbank	54,000	0	0	67,000	0	0	0	0
Muni Courts-Citrus	55,000	0	0	65,000	0	0	0	0
Muni Courts-Compton	207,000	0	0	257,000	0	0	0	0
Muni Courts-Culver	19,000	0	0	15,000	0	0	0	0
Muni Courts-Downey	72,000	0	0	79,000	0	0	0	0
Muni Courts-East Los Angeles	7,000	0	0	21,000	0	0	0	0
Muni Courts-Glendale	61,000	0	0	72,000	0	0	0	0
Muni Courts-Inglewood	114,000	0	0	190,000	0	0	0	0
Muni Courts-Long Beach	106,000	0	0	93,000	0	0	0	0
Muni Courts-Los Angeles	1,072,000	0	0	1,281,000	0	0	0	0
Muni Courts-Los Cerritos	11,000	0	0	5,000	0	0	0	0
Muni Courts-Malibu	4,000	0	0	12,000	0	0	0	0
Muni Courts-Newhall	21,000	0	0	22,000	0	0	0	0
Muni Courts-Pasadena	7,000	0	0	4,000	0	0	0	0
Muni Courts-Planning & Research	8,000	0	0	14,000	0	0	0	0
Muni Courts-Pomona	70,000	0	0	73,000	0	0	0	0
Muni Courts-Rio Honda	120,000	0	0	156,000	0	0	0	0
Muni Courts-Santa Anita	1,000	0	0	1,000	0	0	0	0
Muni Courts-Santa Monica	32,000	0	0	33,000	0	0	0	0
Muni Courts-South Bay	115,000	0	0	116,000	0	0	0	0
Muni Courts-Southeast	66,000	0	0	83,000	0	0	0	0
Muni Courts-Whittier	51,000	0	0	43,000	0	0	0	0
Subtotal TRIAL COURT OPERATION FUNDS	5,199,000	7,094,724	6,838,023	6,407,000	7,176,813	7,220,531	8,766,000	8,695,994
County Fire Department	16,571,000	20,189,694	19,970,381	19,430,000	20,538,805	20,543,526	25,388,000	25,776,845
LA Court Reporters	64,000	0	115,237	0	0	0	0	0
LACERA Retirement	88,000	133,633	130,044	69,000	284,018	265,461	113,000	425,400
Public Library	351,000	434,604	429,273	348,000	451,958	444,628	464,000	489,934
Public Works, ISF	5,022,000	4,026,981	4,140,011	5,647,000	4,987,824	5,055,080	6,232,000	6,581,789
Subtotal SPEC FUNDS/DISTRICTS	22,096,000	24,784,912	24,784,946	25,494,000	26,262,605	26,308,695	32,197,000	33,273,967
TOTAL COUNTY	166,600,000	185,338,402	185,300,405	190,000,000	204,761,101	204,672,293	236,400,000	250,049,446

* Latest estimate.

ATTACHMENT I

WORKERS' COMPENSATION CLAIMS

Department	FY 2000-01		FY 2001-02		% Change in Number of Claims
	Number of Claims as of June 2001	Percentage to Total Claims	Number of Claims as of February 2002	Percentage to Total Claims	
Assessor	87	0.41%	87	0.42%	0.00%
District Attorney	344	1.63%	338	1.61%	-1.74%
Fire	3,159	14.97%	3,067	14.65%	-2.91%
Probation	1,144	5.42%	1,161	5.55%	1.49%
Sheriff	6,517	30.88%	6,522	31.15%	0.08%
All Other County Depts	9,852	46.69%	9,762	46.63%	-0.91%
Total	21,103	100.00%	20,937	100.00%	-0.79%

WORKERS' COMPENSATION COST COMPARISON
FYEs 1999-00, 2000-01, 2001-02
Summary Schedule

Fund	FISCAL YEAR 1999-00			FISCAL YEAR 2000-01			FISCAL YEAR 2001-02	
	Adopted Budget	Actual Costs	Actual Billed	Adopted Budget	Actual Costs	Actual Billed	Adopted Budget	Estimated Actual
General Fund	109,021,000	120,806,892	121,034,882	124,417,000	137,556,083	137,186,095	154,266,000	163,768,258
Enterprise Funds	30,284,000	32,651,874	32,642,554	33,682,000	33,765,600	33,956,972	41,171,000	44,311,226
Trial Court Operations Funds	5,199,000	7,094,724	6,838,023	6,407,000	7,176,813	7,220,531	8,766,000	8,695,994
Special Funds/Districts	22,096,000	24,784,912	24,784,946	25,494,000	26,262,605	26,308,695	32,197,000	33,273,967
TOTAL COUNTY	166,600,000	185,338,402	185,300,405	190,000,000	204,761,101	204,672,293	236,400,000	250,049,446
Variance Between Actual Incurred and Actual Billed			37,997			88,808		
Variance between Actual Incurred and Budgeted Amount			18,738,402			14,761,101		

WORKERS' COMPENSATION COST COMPARISON

FYE's 1999-00, 2000-01, 2001-02

Detail Schedule

Department	FISCAL YEAR 1999-00			FISCAL YEAR 2000-01			FISCAL YEAR 2001-02	
	Adopted Budget	Actual Incurred	Actual Billed	Adopted Budget	Actual Incurred	Actual Billed	Adopted Budget	Estimated Actual *
Administrative Officer	123,000	158,595	137,504	193,000	126,677	213,906	239,000	255,091
Affirmative Action	2,000	20,601	2,262	11,000	10,741	12,388	22,000	23,630
Agric Commissioner/Wts & Meas	505,000	387,652	564,255	423,000	468,091	469,064	460,000	491,491
Alternate Public Defender	7,000	11,075	8,233	16,000	43,141	17,427	20,000	21,674
Animal Care & Control	541,000	421,993	603,897	497,000	475,959	550,658	495,000	528,991
Assessor	757,000	806,819	844,307	869,000	860,124	962,288	1,042,000	1,111,728
Auditor-Controller	120,000	91,153	133,972	151,000	241,631	166,766	162,000	173,342
Beaches & Harbors	128,000	190,601	142,620	131,000	159,405	144,596	192,000	204,547
Board of Supervisors	96,000	85,105	107,394	112,000	325,032	124,771	142,000	151,262
Children's and Family Services	6,960,000	8,530,441	7,752,600	8,255,000	9,932,586	9,142,084	10,622,000	11,319,206
Community & Senior Services	799,000	342,696	889,025	827,000	392,354	915,834	797,000	852,770
Consumer Affairs	84,000	31,358	93,780	66,000	94,987	73,278	69,000	74,026
County Counsel	274,000	300,831	305,007	287,000	172,634	317,602	353,000	376,973
District Attorney-Criminal	2,777,000	4,015,689	3,092,943	3,584,000	3,862,726	3,967,611	4,831,000	5,145,540
District Attorney-Family Support	1,122,000	1,250,243	1,250,680	1,411,000	1,260,040	1,561,624	1,709,000	1,822,320
Health Services-Administration	894,000	1,009,621	4,908,036	938,000	1,265,783	1,039,807	1,150,000	1,224,132
Health Svs-Aids Prog.	144,000	71,292	0	123,000	75,855	136,281	123,000	131,083
Health Svs-Alcohol & Drug Abuse	120,000	158,857	0	99,000	125,060	110,046	141,000	149,998
Health Svs-Calif Children Svs	368,000	545,700	0	511,000	771,510	567,720	693,000	738,053
Health Svs-Juvenile Court	271,000	490,970	0	352,000	458,254	390,177	500,000	531,965
Health Svs-Prev/Publ Hlth Progs	2,608,000	2,997,493	0	2,915,000	3,170,984	3,224,313	3,631,000	3,870,926
Human Relations Commission	5,000	2,683	6,064	7,000	5,002	7,792	8,000	8,786
Human Resources	53,000	125,012	58,395	90,000	110,439	98,315	137,000	145,735
Internal Services	5,271,000	4,143,329	5,879,935	5,950,000	4,168,664	6,590,754	6,267,000	6,698,071
Medical Examiner-Coroner	719,000	492,359	801,856	694,000	382,046	769,279	644,000	689,945
Mental Health	2,248,000	2,414,001	2,506,145	2,482,000	2,435,174	2,749,174	3,040,000	3,241,250
Military & Veterans Affairs	18,000	10,201	19,991	16,000	2,070	18,147	19,000	20,160
County Clerk/Exec Office/Sup Ct	9,000	0	14,254	0	0	0	0	0
Muni Courts-Alhambra	0	0	41,158	0	0	0	0	0
Muni Courts-Beverly Hills	0	0	0	0	0	0	0	0
Muni Courts-Compton	3,000	0	0	0	0	0	0	0
Muni Courts-Inglewood	0	0	0	0	0	0	0	0
Muni Courts-Long Beach	1,000	0	0	0	0	0	0	0
Muni Courts-Los Angeles	4,000	0	0	0	0	0	0	0
Muni Courts-Southeast	0	0	0	0	0	0	0	0
Museum of Art	110,000	106,117	123,101	144,000	121,427	159,002	178,000	189,511
Museum of Natural History	42,000	63,517	47,725	44,000	161,393	48,835	57,000	60,895
Office of Public Safety	20,000	1,432,829	22,002	451,000	1,515,719	498,221	1,192,000	1,260,970
Parks & Recreation	2,092,000	2,092,361	2,331,988	2,290,000	2,039,101	2,537,114	2,808,000	2,994,341
Probation-Main	2,788,000	2,913,191	9,006,741	3,082,000	4,170,484	9,798,992	3,672,000	11,346,084
Probation-Detention	3,758,000	3,926,475	0	4,154,000	5,621,088	0	4,949,000	0
Probation-Camps	1,535,000	1,604,366	0	1,697,000	2,296,788	0	2,022,000	0
Public Defender	708,000	772,642	789,637	793,000	850,371	878,087	887,000	946,874
Public Social Services Adm	15,318,000	16,997,389	17,041,526	17,837,000	22,469,429	19,713,694	22,479,000	23,743,411
Regional Planning	139,000	70,425	154,984	160,000	186,330	177,335	146,000	156,202
Registrar Recorder	611,000	576,633	680,446	718,000	913,721	795,589	851,000	907,836
Sheriff	54,224,000	60,565,305	59,953,309	61,302,000	64,508,661	67,423,515	76,652,000	81,236,530
Treasurer & Tax Collector	645,000	579,272	719,110	735,000	1,304,602	814,009	865,000	922,906
Subtotal GENERAL FUND	109,021,000	120,806,892	121,034,882	124,417,000	137,556,083	137,186,095	154,266,000	163,768,258